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The Influence of Company Size and Audit Tenure on Audit Report Lag

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Information Article	Abstract
Notes Article : Accepted January 5, 2024 Revision approved April 25, 2024 Published May 30, 2024 Keywords: Audit Report Lag. Company Size and Audit Tenure DOI: 10.55098/crpafh46	This research aims to analyze the influence of Company Size and Audit Tenure on Audit Report Lag. The population of this research is all banking companies listed on the Indonesia Stock Exchange (B.E.I.) in 2020-2022. The sampling technique used purposive sampling to obtain a sample of 43 companies, and the observation population was 129. The data analysis technique used multiple linear regression and was processed using EvIEWS 12. The data analysis shows that the Company Size variable influences Audit Report Lag. The Audit Tenure variable does not affect Audit Report Lag. In banking companies listed on the Indonesian Stock Exchange in 2020-2023.

Introduction

The globalization era is one reason companies register their businesses as public companies to compete. As a result, activity on the Indonesian Stock Exchange (B.E.I.) has increased yearly, which is reflected in the development of issuers. The decision to become a joint stock company is also made by companies whose capital is wholly or partly owned by the state or what is usually called a state-owned enterprise (B.U.M.N.). Namely, it is from seven different sectors: manufacturing, information and communications, transportation and warehousing, financial services and insurance, construction, and mining and quarrying—procurement of steam gas and cold air.

A phenomenon that has occurred in recent years is a case where the IDX imposed a suspension or sanction in the form of a refined and temporary suspension of securities trading on P.T. Bakrieland Development Tbk (E.L.T.Y.), which operates in the property and real estate sector, because for 3 (three) consecutive years, namely from 2018 to 2020, it was late in submitting its audited financial reports via the website www.idx.co.id

According to Artaningrum (2017), audit report lag is the period for completing an annual financial report audit, measured based on the number of days required to obtain an independent auditor's report on the company's annual financial report audit. Company size is defined as a scale where the company's size can be calculated in various ways, such as total assets, share market value, etc. Widiastuti and Kartika (2018). Company size is measured using the natural logarithm of total assets (Puspitasari & Latrini, 2014). Research by Tanujaya (2022) and Elfrida Sipahutar *et al.* (2022) states that company size influences audit

report lag, while research by Lianto and Kusuma (2010), Oktaviani and Poniman (2023); Chrisnanti (2022) states that company size does not affect audit report lag.

Audit tenure is the length of the auditor's engagement with the client in providing agreed-upon audit services. It is measured by giving the number 1 for the beginning of the research year and adding another 1 for the company's financial statements. The same K.A.P. Sari (2019) audited it. Research by Chrisnanti (2022) states that audit tenure affects audit report lag.

This research was developed by Elfrida Sipahutar *et al.* (2022), which examines the differences between previous research and current research. Previous research discussed the influence of company size, profitability, and ownership on audit report lag. In the current research, one variable was added, and the profitability and ownership variables were removed using the audit tenure variable. The previous research examined from 2019-2021, and the current research examined from 2020-2022, as well as changing manufacturing companies to banking companies listed on the Indonesian Stock Exchange (B.E.I.).

Literature Review and Hypothesis

Agency Theory (Agency Theory)

Jensen and Meckling (1976) explain agency relationships in agency theory. In this agency, a company is seen as a collection of contracts between the owner of economic resources (principal) and the manager (agent) who controls the use and management of these resources. An agency relationship is a contract in which one or more people (principals) contract with another person (agent) to perform services on behalf of the principal and authorize the agent to make decisions in the principal's best interests.

The relationship between agency theory and audit report delays is very close. The introduction of agency theory takes place in the form of a work contract that regulates the rights and obligations of each party while maximizing profits. Agents are expected to act in the interests of their clients. Clients provide appropriate incentives to contractors to ensure optimal work contracts. Contractors are responsible for providing financial reports to clients, which include information about financial position, operating results, changes in capital and cash flow over a certain period Fujianti and Satria (2020).

Audit Report Lag

According to Elfrida Sipahutar *et al.* (2022), *Audit report lag* is the period required to complete an audit of financial reports annually, measured from the date the company closed the book until the date listed on the report. As established by B.E.I., audit accuracy is an obligation to fulfil the interests of users of financial statements.

Company Size

Company size is a scale where the company's size can be classified in various ways (total assets, log size, share market value, and so on). Whether a company can be said to be large or small can be seen from several points of view, such as total asset value, total sales, number of workers and so on Elfrida Sipahutar *et al.*, (2022). Nurdianti *et al.* (2020) stated in their research that company size indicators can be used in two ways, namely using Ln (Total Assets) and Ln (Total Sales).

Tenure Audit

In P.O.J.K. Number 13 of 2017 concerning the use of Public and Office Accounting Services, it is regulated that the financial services industry is obliged to limit the use of audit services from A.P. for a maximum of 3 (three) consecutive financial years. Audit tenure in this study is measured by calculating the years the auditor has completed work engagements

with the same client company (Arumningtyas & Ramadhan, 2019)

The influence of company size on audit report lag

Company size is one of the factors that influences audit reporting delays. Operational complexity, variables and transaction intensity also influence company size. The higher the asset value of a company, the shorter the audit reporting delay, and vice versa. Larger companies tend to complete the audit process more quickly. Larger companies are generally supervised by investors, capital regulators, and the government, so they experience fewer audit reporting delays. Large companies also have adequate internal control systems, making the audit process easier (Lianto & Kusuma, 2010)

Carslaw and Kaplan (1991) researched delays in audit reports in companies listed in New Zealand Rachmawati (2008). The findings show that the influencing variable is company size. Hanipah (2001) found that large companies' audit periods tend to be longer. Research by Subekti and Widi-yanti (2004) shows that company size influences audit reporting delays. Petronila (2007) also found that company size increases the likelihood of audit reporting due to the availability of significant resources, skilled workforce, sophisticated technical equipment, and superior internal controls that large companies usually have (Lianto & Kusuma, 2010)

H1: Company size influences audit report lag

The effect of audit tenure on audit report lag

Arumningtyas and Ramadhan's (2019) research shows that the audit period influences the delay in audit reports. Audit tenure impacts the auditor's insight into the client company. Auditors with experience working with clients can gain broader insight into the client company's accounting system to develop effective audit procedures. Long-term audits increase understanding of a company's business activities and reduce audit reporting delays (Daulay & Serly, 2020). Delays in audit reports are achievable by having more extended auditor engagement periods and quicker audit completion.

H2: Audit tenure affects audit report lag

Research methods

This research analyses the influence of company size and tenure on audit report lag. The 2020-2022 panel data includes 43 banking companies listed on the Indonesian stock exchange with 129 sample observations. Researchers used a purposive sampling technique; the data was obtained through the annual report on the official website, www.idx.co.id, or the relevant company's official website.

The data analysis techniques used in this research are descriptive statistical analysis and multiple regression analysis. Descriptive statistical analysis provides an overview or description of data seen from the minimum, maximum and mean values. Hypothesis testing uses multiple regression analysis, coefficient of determination, and partial tests (t-test). The model was tested previously with the classic assumption test to determine the feasibility of the regression model. The following is the multiple regression model used in this research:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y: Audit Report Lag; X1: Company Size; X2: Tenure Audit; α : Constant; β_1 , β_2 : Regression Coefficients; e: Disturbing Variable (error)

Results and Discussion

Descriptive Statistical Analysis

Table 1
Descriptive Statistics

	Y	X1	X2
Mean	67.64341	31.54911	1.806202
Median	69,00000	30.89657	2,000000
Maximum	176,0000	35.22819	3,000000
Minimum	18,00000	28.41029	1,000000
Std. Dev	30.17651	1.674518	0.801147

Source : Processed Data, 2024

Based on the table above, the results of descriptive statistical tests in this study show that Lag The Audit Report Lag variable has a minimum value of 18,00000. Moreover, the maximum value is 176,0000. The median value is 69.00000, the mean value is 67.64341, and the standard deviation value is 30.17651. The mean value exceeds the standard deviation, so the relative deviation is slight (average). Company Size The Company Size variable has a minimum value of 28.41029. Moreover, the maximum value is 35.22819. The median value is 30.89657, the mean value is 31.54911, and the standard deviation value is 1.674518. The mean value is greater than the standard deviation, which means the data deviation is relatively small (standard). Audit Tenure The Audit Tenure variable has a minimum value of 1.000000. Moreover, the maximum value is 3,000000. The median value is 2.000000, the mean value is 1.806202, and the standard deviation value is 0.801147. The mean value is greater than the standard deviation, which means the data deviation is relatively small (standard).

Panel data regression analysis

Before the *Chow*, *Hausman*, and *Lagrange Multiplier* tests were carried out, the regression model needed to be determined by conducting model tests, namely the *expected effect*, *fixed effect*, and *random effect models*. Next, the *Chow*, *Hausman*, and *Lagrange multiplier* tests were carried out.

Test chow

Based on the table below, the Chi-square cross-section probability value < 0.05 is 0.0000. so the F.E.M. estimation is better than the C.E.M. estimation model. With the F.E.M. model selected, the Hausman test was continued.

Table 1
Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	5.326218	(42.84)	0.0000
Chi-square cross-section	167.482281	42	0.0000

Source : Processed Data, 2024

Hausman test

Based on the table below, the Chi-square cross-section probability value > 0.05 is 0.1307. so the R.E.M. estimation is better than the F.E.M. estimation model. With the R.E.M. model selected, the Lagrange Multiplier test was continued.

Table 2
Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	4.069501	2	0.1307

Source : Processed Data, 2024

Lagrange Multiplier Test

Based on the table below, the Chi-square cross-section probability value < 0.05 is 0.0000. so the R.E.M. estimation is better than the C.E.M. estimation model.

Table 3
Lagrange Multiplier Test Results

Null (no rand. effect) Alternatives	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	42.07178 (0.0000)	0.073182 (0.7868)	42.14496 (0.0000)
Honda	6.486276 (0.0000)	-0.270522 (0.6066)	4.395202 (0.0000)
King-Wu	6.486276 (0.0000)	-0.270522 (0.6066)	1.118576 (0.1317)
GHM	-- --	-- --	42.07178 (0.0000)

Source : Processed Data, 2024

Classic assumption test

Normality test

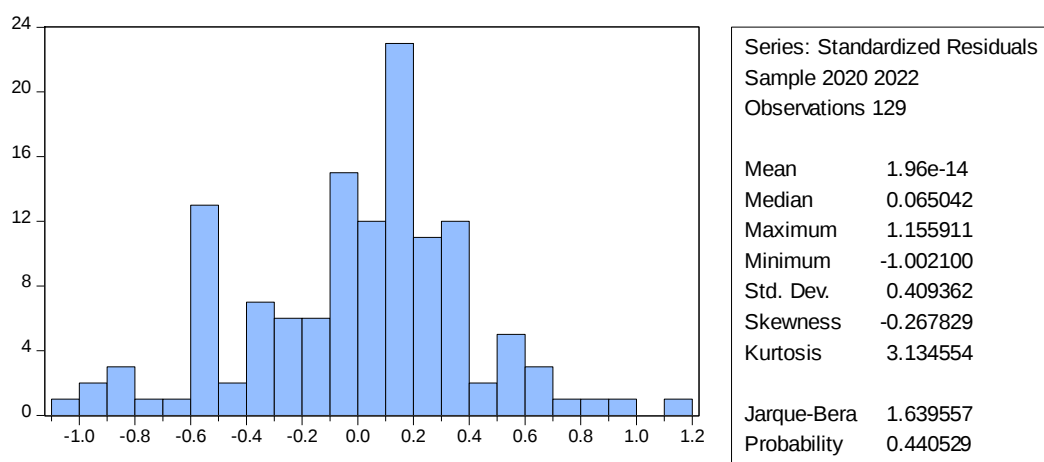


Figure 1 Normality Test Results

Source : Processed Data, 2024

The test results above show that the probability value is 0.4405. This value exceeds the required probability value > 0.05 , so the data is usually distributed.

Heteroscedasticity Test

The results of the Heteroscedasticity test using *White's test* are obtained based on the image below. The Chi-Square Obs*R-squared probability value is > 0.05 , 0.1212. It can be concluded that there is no heteroscedasticity problem in this regression model.

Table 4
Heteroscedasticity Test Results

F-statistic	1.781314	Prob. F(5,123)	0.1215
Obs*R-squared	8.710312	Prob. Chi-Square(5)	0.1212
Scaled explained SS	18.44770	Prob. Chi-Square(5)	0.0024

Source : Processed Data, 2024

Autocorrelation Test

Table 5
Autocorrelation Test Results

F-statistic	14.99996	Prob. F(2,124)	0.0000
Obs*R-squared	25.12981	Prob. Chi-Square(2)	0.0000

Source : Processed Data, 2024

If the value of Prob. Chi-square (Obs*R-squared) > 0.05 , so there is no autocorrelation problem. Based on the picture above, the value of Prob. Chi-square (Obs*R-squared) is 0.0000, so it can be concluded that this research data is autocorrelated.

Multiple Linear Regression Analysis

Panel data regression analyses how much panel data used in research can explain variations in Audit Report Lag (dependent). The following are the results of the multiple linear regression test :

Table 6
Panel Data: Multiple Linear Regression Analysis

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	22.77214	3.431601	6.636012	0.0000
X1	-5.411691	0.995634	-5.435423	0.0000
X2	-0.007433	0.053668	-0.138497	0.8901

Source : Processed Data, 2024

Based on the results of data processing in the image above, the following multiple linear regression analysis equation is obtained:

$$Y = 22.772 - 5.411X_1 + 0.007X_2 - e$$

Where:

Y: Audit Report Lag; X1: Company Size; X2: Tenure Audit; a: Constant; β_1 , β_2 : Regression Coefficients; e: Disturbing Variable (error)

From the regression equation above, the following conclusions can be obtained:

The constant value shows a value of 22.7724, meaning that all independent variables are equal to zero. Then, the Audit Report Lag will be 22.7724. The Company Size regression coefficient value is -5.4116, meaning that if the Company Size increases by 1%, the Audit Report Lag will decrease by 5.4116, provided all other independent variables are constant. The Audit Tenure regression coefficient value is -0.0074, meaning that if Audit Tenure increases by 1%, the Audit Report Lag will decrease by 0.0074. they provided that all other independent variables are constant.

Hypothesis Test Results

T Test (Partial)

Hypothesis testing (t-test) measures the depth to which the independent variables are separately able to explain the extent associated with the dependent variable with a probability limit of less than 0.05 (H_a is accepted). If it exceeds 0.05, then H_o is accepted, and H_a is rejected.

Table 7
Hypothesis Testing Results (t-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	382.5068	42.46405	9.007780	0.0000
X1	-9.878312	1.339702	-7.373513	0.0000
X2	-1.778048	2.800181	-0.634976	0.5266

Source : Processed Data, 2024

Based on partial test results using the Eviews 12 program with z-statistical and probability values. The test results can be explained as follows:

Company Size The Company Size Regression Coefficient is -7.373513, and the significance is $0.0000 < 0.05$ as a criterion for accepting H_1 , so it can be said that H_1 is accepted. Audit Tenure Regression Coefficient The Audit tenure is -0.634976, and its significance is $0.5266 > 0.05$. Moreover, it shows that it does not meet the criteria for accepting H_2 , so it can be said that H_2 is rejected.

F Test

Model fit testing (F test) is needed to determine whether the regression model used in this research is appropriate. Fit or appropriate criteria if the significance value is less than 0.05. The findings of this test can be seen in the table below:

Table 8
F Test Results

	F Statistics	Prob.
F test	27.56612	0.000000

Source : Processed Data, 2024

Based on the table above, it shows the Prob Value. (F Statistics) is 0.00, which means it is smaller than 0.05; this shows that the Prob value is $0.00 < 0.05$, meaning that the variables Company Size (X1) Audit Tenure (x2) can explain the Audit Report Lag (Y). So, the regression model used in this research can be used.

The influence of company size on audit report lag.

Based on the results of the t-test statistical test, it is stated that the Company Size variable has a significance value of $0.00 < 0.05$, so it can be concluded that Company Size affects Audit Report Lag, so the first hypothesis (HA1) which states that Company Size has a positive effect on Audit Report Lag, is accepted. So, company size can influence Audit Report Lag.

Based on the results of this research, it can be seen that compared to companies that have small total assets, companies that have significant total assets will be vulnerable to experiencing *audit lag*. This happens because a company with significant total assets means the number of samples that must be taken will also be more extensive, and more audit procedures must be taken. If the size of a company becomes more extensive, the company will also be more widely known by the wider community. As the company becomes more well-known, the demands for transparency or accountability will also increase. Therefore, submitting financial reports is also increasingly needed (Alifiyanti, 2023). For several reasons, large companies have *an audit report that lags* shorter than small companies. First, larger companies are considered to have more robust internal control systems because of better information systems and technology that can minimize errors. Second, companies have sufficient funds to pay higher audit fees to encourage auditors to present audited financial reports more quickly. Third, large companies face higher pressure as they are closely watched by investors, regulatory bodies, and labour unions to present their financial reports more quickly.

This research is in line with research conducted by Siti Laela Rahayu and Herry Laksito (2022), Muhammad Rafi Eldi Putra (2023), Tanujaya (2022), and Elfrida Sipahutar et al. (2022), which states that company size has a positive effect on Audit Report Lag. However, the results of this research are also not in line with research by Chrisnanti (2022), Purwanti (2023), Hoirul Fayyum & Rustiana (2019) and Yuliastuty, Asmara & Situanti (2018), which shows that company size does not have a negative influence on company size.

The Influence of Audit Tenure on Audit Report Lag

Based on the results of the t-test statistical test states that the Audit Tenure variable has a significance value of $0.52 > 0.05$, so it can be concluded that Audit Tenure does not affect Audit Report Lag, so the second hypothesis (HA2) states that Audit Tenure has a positive effect on Audit Report Lag, in reject.

According to Michael and Rohman (2019), agency theory explains the relationship between principals (owners) and agents (managers) who have different goals but need each other. The time it takes to submit financial reports can give rise to information asymmetries. Therefore, auditors are essential in examining and supervising management performance to stay within company goals. Arumningtyas and Ramadhan (2019) produced evidence that short audit tenure results in longer audit report lag. Auditors need to gain sufficient knowledge about their clients and the industry in the early years of the auditor-client relationship.

The results of this research are in line with the findings of Chrisnanti (2022), Purwanti (2023), Hoirul Fayyum and Rustiana (2019), Diana, Hidayat, and Riau (2022), who stated that Audit Tenure affects Audit Report Lag. However, this research's results differ from those of Singer and Zhang (2018) and Yuliastuty, Asmara, and Situanti (2018), which state that Audit Tenure does not affect Audit Report Lag.

Conclusion

The Company Size variable influences the Audit Report Lag. This means that the larger the company size, the lower the level of delay auditing, Which the Company does. The Audit

Tenure variable does not affect Audit Report Lag. If the engagement time between the company and the K.A.P. or independent auditor is faster, the delays in submitting financial reports will decrease.

Future research is expected to use other proxies from this research and renewal variables that previous researchers have yet to study. Further research is recommended to add other independent variables to influence audit report lag, such as K.A.P.'s reputation, independent commissioner and audit committee size. Adding a more extended research period can produce more accurate results.

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